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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

May 8, 2002

The Honorable Ernest Hollings
Chairman, Subcommittee on
Commerce, Justice, State and the Judiciary
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Judd Gregg
Ranking Member, Subcommittee on
Commerce, Justice, State and the Judiciary
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Fritz and Judd:

Thank you again for the help you and your staff provided in completing a reprogramming request for the Small Business Administration's (SBA) HUBZone program. The mishap that occurred during last year's appropriations cycle has now been corrected. I appreciated the opportunity to highlight the importance of this small program that holds so much potential. Achieving a stable and sufficient funding level for the HUBZone program is my Number One funding priority for SBA in Fiscal Year 2003.

The HUBZone program is one of my personal commitments, since I wrote the original legislation in the Small Business Reauthorization Act of 1997. Although the Federal government has numerous economic development programs, the HUBZone program is a unique response to a particular problem. Economic development in chronically distressed areas is particularly challenging due to the lack of an established customer base. Tax abatements, regulatory relief, and other incentives to attract small business into distressed areas are important but inadequate; if the businesses that locate there do not have customers, they will soon fail, and the economic development efforts will be for naught. The HUBZone program answers this need by providing incentives for the government to act as a customer to these businesses. While HUBZone firms stabilize their revenues and establish a non-governmental customer base, Federal contracts can keep these firms alive and keep the economic development effort from collapsing.

Moreover, the HUBZone program is designed to leverage the government's contracting dollar, ensuring real economic activity in the nation's most blighted areas. To participate in the HUBZone program, a small business must maintain its principal office in a HUBZone and must hire 35% of its employees from HUBZones. The principal office requirement ensures the firm has a direct commitment to, and presence in, the blighted area. The 35% employment requirement ensures that the wages and salaries paid to these employees will "turn over" at least once in the HUBZone areas, generating new economic activity as grocery stores, gas stations, and other retailers move into the area to serve these new customers. I am confident this program, when it is fully up-and-running, will generate some of the most effective economic renewal we have seen in areas that currently remain impoverished year-in and year-out, decade-in and decade-out.

No doubt you can see why I am such an enthusiastic sponsor of this program, and why I am personally committed to keeping it operating. Because I believe this program is so important, last year I commissioned a study from the General Accounting Office (GAO) to determine what impediments were keeping the program from living up to its potential. GAO cited SBA's institutional preference for the 8(a) contracting program as the main obstruction. The 8(a) program has its own purposes and goals, none of which necessarily competes with the HUBZone program. However, contrary to Congressional direction, SBA had signaled to government contracting officers that they should place first priority on 8(a) contracting, and award HUBZone contracts only when no 8(a) firm was available to fill a particular contracting requirement. Clumsy and misleading language in SBA's regulations further heightened the confusion among Federal purchasing agencies.

Thanks in part to the conference report language directing SBA to act on GAO's recommendations, SBA is now in the final stages of eliminating this roadblock. Proposed rules to clarify the relationship between 8(a) and the HUBZone program were published in the January 28 *Federal Register*, and the comment period closed on March 29. The proposed rules appear to be much clearer and conform to Congressional direction, establishing "parity" between the two programs. I am confident that, when SBA publishes its final rules, this problem will finally be resolved, and the HUBZone program will be well-situated to achieve the Congressional objectives behind its creation.

However, as SBA finally clears away these implementation issues, the principal obstruction for the HUBZone program will be its chronic underfunding. The original enactment authorized the program at \$5 million for Fiscal Years 1998 through 2000, and the Small Business Reauthorization Act of 2000 increased the authorization to \$10 million for Fiscal Years 2001 through 2003. Nevertheless, the program has never been funded at its authorized level. Actual appropriations have not exceeded \$2 million each year to date.

Additional funding is necessary for the following purposes. First, SBA must continue to reach out and inform potential participants of the opportunities available to them through the HUBZone program. The HUBZone program delivers its benefits through Federal contracts awarded to participating firms; without a sufficient base of participants, Federal agencies will not have HUBZone contractors ready, willing, and able to sell the government the goods and services it needs at a price the taxpayer is willing to pay. Second, additional training for government contracting personnel is vital. Because SBA is the administrator of this government-wide program, it makes sense for SBA to provide cross-agency training in how to carry out HUBZone program requirements. Finally, as a larger base of contractors leads to a larger base of HUBZone contract awards, SBA will need to direct greater resources to enforcement. Sadly, the HUBZone program's ability to deliver real value to communities will also attract those who would abuse the program for their own gain without living up to the program's objectives. SBA, as the agency responsible for certifying participants, must have the resources to investigate claims of waste, fraud, and abuse that inevitably occur in programs of this type. Current funding levels do not allow SBA to implement a systematic program of random audits, currently authorized under the HUBZone law but not consistently carried out.

Therefore, I am asking for your help in ensuring an appropriation for the HUBZone program of \$5 million in Fiscal Year 2003. This is the authorized level for the program when it was originally enacted, and half of the current authorized level. As a fellow Appropriator, I am certainly aware of the current budgetary pressures, and I am not seeking the full \$10 million currently authorized. Instead, I hope that an increase to \$5 million would allow the program to achieve greater success while keeping to the creative efficiencies (such as the HUBZone program's electronic application over the Internet) that frugality has fostered.

Thank you for your help in achieving this goal. I emphasize again that a HUBZone funding level of \$5 million is my Number One priority for SBA funding in Fiscal Year 2003. If you have questions about this request, please contact Emilia DiSanto or Cordell Smith of my Small Business Committee staff on 4- .

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond
Ranking Member